GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA

UNSTARRED QUESTION NO:3729
ANSWERED ON:13.12.2002
RBS FOR BANKS
SURESH RAMRAO JADHAV (PATIL)

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether Reserve Bank of India propose to introduce Risk BasedSupervision (RBS) for banks and to put in place a Prompt Corrective Action (PCA);

(b) if so, the details thereof; and

(c) the steps taken for development of a risk profile and designing a customary supervisory action plan for each bank ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE & COMPANY AFFAIRS (SHRI ANANDRAO V. ADSUL)
(a): Yes, Sir.
(b): Risk Based Supervision (RBS) for commercial banks will enhance andrefine supervisory practices and bring them in line with international best practices. The objective of RBS is to ensure stability of the banking system,to promote efficiency, protect the interests of the depositors and prevent the misuse of banking system. RBS will help Banks in identifying deficienciesin systems and controls and to find out appropriate solutions.
Prompt Corrective Action (PCA) is mechanism based on a pre- determined rule-based structured early intervention mechanism.PCA is intended to enhance the effectiveness of the existing supervisory frame- work. It has a schedule of corrective actions based on three important parameters i.e. CRAR, net Non-Performing Assets and Return on Assets,representing capital adequacy, asset quality and profitability respectively. Certain trigger points have been determined under these parameters and for every trigger point, a set of structured and discretionary actions has been proposed, which are designed to pre-empt any deterioration in the soundness of banks.
(c): Reserve Bank of India (RBI) has developed a detailed risk profiletemplate for compilation of risk profiles of commercial banks under RBS. The commercial banks have also been advised by RBI to undertake a self- assessment of their own risk profiles.A tailor-made supervisory programme will be prepared for each bank based on its risk profile.